700

Veterans Benefits

Budget function 700 covers programs that offer benefits to military veterans. Those programs, most of which are run by the Department of Veterans Affairs, provide health care, disability compensation, pensions, life insurance, education and training, and guaranteed loans. CBO estimates that total outlays for function 700 will be $45.9 billion in 2001, including discretionary outlays of $22.0 billion. Over the past decade, discretionary outlays for veterans' benefits have increased almost every year.

Federal Spending, Fiscal Years 1990-2001 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Estimate 2001
Budget Authority (Discretionary)	13.0	14.1	15.3	16.2	17.2	17.6	17.8	18.9	18.9	19.3	20.9	22.5
Outlays												
Discretionary	13.0	13.8	15.1	15.8	16.7	17.4	17.6	18.6	18.5	19.4	20.8	22.0
Mandatory	16.1	17.5	19.0	19.8	20.9	20.5	19.4	20.7	23.3	23.8	26.3	23.9
Total	29.1	31.3	34.1	35.7	37.6	37.9	37.0	39.3	41.8	43.2	47.1	45.9
Memorandum:												
Annual Percentage Change in Discretionary Outlays		5.9	9.8	4.7	5.7	4.3	1.0	5.7	-0.6	4.7	7.1	6.1

700-01 Charge Monthly Rather Than Up-Front Fees for VA Mortgage Insurance

	Savings (Millions of dollars) Budget Authority	Outlays
2002	100	100
2003	105	105
2004	109	109
2005	111	111
2006	115	115
2002-2006	540	540
2002-2011	1,874	1,874

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

700-04

The Department of Veterans Affairs (VA) operates a home loan guaranty program that insures mortgages for active-duty military personnel and veterans. Borrowers taking advantage of the program pay a one-time, up-front funding fee. In contrast, borrowers using private mortgage insurance generally pay monthly fees.

This option would replace the up-front fee in the VA program with an annual premium, paid monthly, starting in 2002. (Provisions of option 700-04 that would eliminate planned reductions in the fee for some borrowers are included in this option.) Budget savings would total $540 million over five years and $1.9 billion through 2011. Three-fifths of those savings would come from increased revenues under the monthly premium, and the rest would come from eliminating the fee reduction now scheduled to take effect in fiscal year 2009. Actual savings from the option, however, would depend on future economic conditions: savings could be lower if the program experienced high rates of default or high rates of refinancing to conventional loans.

Besides saving money for the VA, changing from an up-front fee to a premium paid monthly would have advantages for participants in the program. First, it would increase fairness in several ways. Borrowers would be charged for mortgage insurance only for the years that they needed it. Active-duty military personnel who regularly change their duty station would pay less than they do under the current fee structure. For example, borrowers who sold their home after five years would save more than $660 (on a present-value basis) with a monthly premium compared with a 2 percent up-front fee on a loan with no down payment. The monthly premium would also cause borrowers who defaulted on their mortgage to pay significantly more toward their insurance than they do now; when the up-front fee is financed as part of the mortgage—as it typically is today—borrowers who subsequently default pay very little of the fee.

Second, the premium assumed in this option (0.37 percent per year) is much lower than the rates that private mortgage insurers charge for comparable coverage. Thus, the program would still provide a significant benefit to military personnel.

Third, because the up-front fee is usually financed as part of the mortgage, adopting a monthly premium would reduce the amounts borrowed, making it easier for borrowers to sell their homes, and thus reduce rates of default and foreclosure. Today, since most VA mortgages combine financing of the up-front fee with no down payment, the program creates “upside-down” loans whose balances are greater than the underlying property values. Borrowers in that situation must wait for the price of their home to appreciate significantly before they can afford to sell it and move. If the price does not rise fast enough, default becomes a possibility when borrowers must move to a new location. The January 1999 report of the Congressional Commission on Servicemembers and Veterans Transition Assistance raised concern about upside-down loans and their added risk of default. By lowering default and foreclosure rates, this option could lower the number of direct loans the VA makes to facilitate the sale of foreclosed properties. Because the VA incurs a subsidy cost for its direct loans, this option could provide additional budgetary savings beyond the estimates shown here.

Changing the fee structure for VA mortgage insurance could have drawbacks, however. First, the department would need to establish a system to receive monthly premium receipts from lenders, which could necessitate new accounting and computer systems. Second, although the change would reduce the amounts borrowed, it would actually increase monthly mortgage payments by an average of $20 during the years in which it was due. To avoid that increase, borrowers could purchase homes of lower value (an average of $2,900 lower). Or they could opt for a combination of smaller increases in monthly payments and smaller decreases in the value of the homes they purchased.

700-02 End Future Awards of Veterans' Compensation for Certain Veterans with Low-Rated Disabilities

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2002	28	26
2003	87	83
2004	149	145
2005	230	228
2006	283	282
2002-2006	777	765
2002-2011	3,299	3,258

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

700-03

Approximately 2.3 million veterans who have service-connected disabilities receive veterans' disability compensation benefits. The amount of compensation is based on a rating of the individual's impairment that is intended to reflect an average reduction in the ability to earn wages in civilian occupations. Veterans' disability ratings range from zero to 100 percent (most severe). Veterans who are unable to maintain gainful employment and who have ratings of at least 60 percent are eligible to be paid at the 100 percent disability rate. Additional allowances are paid to veterans who have disabilities rated 30 percent or higher and who have dependent spouses, children, or parents.

About 50,000 veterans with disability ratings below 30 percent are added to the rolls every year, receiving benefits of between $70 and $188 a month. Federal outlays could be reduced by $3.3 billion during the 2002-2011 period by not awarding benefits for those low-rated disabilities in future cases.

Making veterans with new disability ratings below 30 percent ineligible for compensation would concentrate spending on the most impaired veterans. Performance in civilian jobs depends less now on physical labor than it did when the disability ratings were originally set, and improved reconstructive and rehabilitative techniques are now available, so physical impairments rated below 30 percent may not reduce veterans' earnings. Those impairments include conditions such as mild arthritis, moderately flat feet, or amputation of part of a finger—conditions that would not affect the ability of veterans to work in many occupations today.

Veterans' compensation could be viewed, however, as career or lifetime indemnity payments owed to veterans disabled to any degree while serving in the armed forces. Moreover, some disabled veterans might find it difficult to increase their working hours or otherwise make up for the loss of expected compensation payments.

700-03 End Future Awards of Veterans' Disability or Death Compensation When a Disability Is Unrelated to Military Duties

	Savings (Millions of dollars) Budget Authority	Outlays
2002	70	65
2003	219	207
2004	379	365
2005	582	580
2006	733	728
2002-2006	1,983	1,945
2002-2011	8,614	8,500

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

700-02

Veterans are eligible for disability compensation if they either receive or aggravate disabilities while on active-duty service. Service-connected disabilities are defined as those resulting from diseases, injuries, or other physical or mental impairments that occurred or were intensified during military service (excluding those resulting from willful misconduct). Disabilities need not be incurred or made worse while performing military duties to be considered service-connected; for example, disabilities incurred while on leave also qualify. The federal government gives death compensation awards to survivors when a service-connected disability is related to the cause of death.

As many as 50 percent of veterans receiving compensation payments may qualify for them on the basis of injuries or diseases that were neither incurred nor aggravated while performing military duties. Ending disability and death compensation awards in such cases in the future would reduce outlays by $8.5 billion over 10 years. Approximately 5 percent of those savings would come from reduced death compensation awards.

This option would make disability compensation of military personnel comparable with that of federal civilian employees under workers' compensation arrangements. However, veterans' groups might argue that veterans are owed disability compensation because of their service, even for disabilities unrelated to military duties. In addition, because military personnel are assigned to places where situations may sometimes be volatile, they have less control than civilians over where they spend their off-duty hours. Therefore, in many cases it might be difficult to determine whether a veteran's disease, injury, or impairment was entirely unrelated to military duties. The formal appeals system of the Department of Veterans Affairs (VA) could be extended to cover rulings specifying that disabling conditions were unrelated to military duties.

Data collected by the VA indicate that more than 200,000 veterans receive a total of $1.3 billion a year in VA compensation payments for diseases that, according to the General Accounting Office, are generally neither caused nor aggravated by military service. Those diseases include arteriosclerotic heart disease, diabetes mellitus, multiple sclerosis, Hodgkin's disease, chronic obstructive pulmonary disease (including chronic bronchitis and pulmonary emphysema), hemorrhoids, schizophrenia, osteoarthritis, and benign prostatic hypertrophy. Ending new awards only for veterans with those diseases would have a more limited impact than this option because it would not affect all veterans whose compensable disabilities are unrelated to military service. Such an approach would yield smaller savings than this option—about $1.4 billion over the 2002-2011 period.

700-04 Eliminate "Sunset" Dates on Certain Provisions for Veterans

	Savings (Millions of dollars)	
	Budget Authority	Outlays
2002	0	0
2003	304	304
2004	320	320
2005	336	336
2006	350	350
2002-2006	1,310	1,310
2002-2011	4,723	4,721

SPENDING CATEGORY:

Mandatory

RELATED OPTIONS:

700-01 and 700-05

Five provisions included in the Balanced Budget Act of 1997 that affect programs for veterans will expire in the next decade. The provisions either limit benefits or recover certain costs of those programs; consequently, allowing them to expire would raise overall spending for veterans' benefits. Under those provisions:

- If a veteran with a service-connected disability has outside health insurance and receives treatment from the Department of Veterans Affairs (VA) for a non-service-connected disability, the VA may collect the reasonable cost of that treatment from the insurer.

- The VA may charge copayments to some veterans who receive inpatient and outpatient care and outpatient medication from VA facilities.

- The VA is authorized to acquire information from the Internal Revenue Service (IRS) to determine veterans' eligibility for pensions and other benefits.

- In the case of certain veterans who are in nursing facilities, have no dependents, and are eligible to have Medicaid cover their nursing home care, the VA must reduce their pension for military service to $90 per month (since Medicaid will pay for their care). That situation lowers pension costs for the VA but increases costs for the Medicaid program, which is paid for jointly by the federal and state governments.

- The fees that the VA charges for first-time and repeated use of the veterans' home loan program were raised, and the ways in which the department acquires property were made more cost-effective.

The first two provisions will expire on September 30, 2002—their "sunset" date. The other three will expire on September 30, 2008.

This option would make the effects of those provisions permanent by eliminating the sunset date in each case. In addition, it would permanently authorize the IRS to provide information to the VA and eliminate the VA's current authority to spend the money it collects from health insurers (beginning in 2003, those collections would revert back to the Treasury). If all five provisions were made permanent and the collections were deposited in the Treasury, savings during the 2002-2011 period would total $4.7 billion compared with the current level of spending.

The main advantage of this option is that it would convert the temporary savings achieved by those provisions into continuing savings. The main disadvantage is that some veterans or their insurers would pay higher costs. And states (through their Medicaid programs) would continue to bear more of the costs of caring for veterans in nursing facilities than they would if the provisions lapsed.

700-05 Increase Beneficiaries' Cost Sharing for Care at VA-Operated Nursing Facilities

	Savings (Millions of dollars) Budget Authority	Outlays
2002	195	195
2003	201	201
2004	208	208
2005	214	214
2006	221	221
2002-2006	1,039	1,039
2002-2011	2,253	2,253

SPENDING CATEGORY:

Mandatory

RELATED OPTION:

700-04

Veterans may receive long-term care in nursing homes operated by the Department of Veterans Affairs (VA) depending on the availability of resources. That care is rationed primarily on the basis of service-connected disabilities and income. Under certain conditions, a veteran may receive care at the VA's expense in state-operated or privately run nursing facilities.

The VA may charge copayments to veterans with no compensable service-connected disabilities and high enough income when they receive more than 21 days of care in VA-run nursing homes. In 2001, the VA will collect about $50 million from providing such extended care services, including nursing home care, the Congressional Budget Office estimates. Those collections can be spent without appropriation. According to the General Accounting Office, state-operated nursing facilities for veterans and community long-term care facilities that treat veterans have copayment policies that offset a larger share of their operating expenses than the VA, recovering as much as 43 percent through copayments. (Estate-recovery programs are another way they offset costs.)

This option would authorize the VA to revise its cost-sharing policies to recover more of the cost of providing care in VA nursing facilities. The department would be required to collect a minimum of 10 percent of its operating costs, but it could determine what type of copayments to charge and who would be eligible to pay them. For example, it could apply the current copayment to a broader category of veterans or require the veterans who now make copayments to pay more. Recovering 10 percent of the VA's operating costs would save $195 million in 2002 and almost $2.3 billion over 10 years. Achieving those savings would require depositing the receipts in the Treasury rather than allowing the VA to retain and spend them.

Proponents of this option would argue that veterans in VA nursing facilities are getting a far more generous benefit than similar veterans in non-VA facilities. Because VA-run nursing homes are relatively scarce, veterans lucky enough to be admitted to one have an advantage over similar veterans elsewhere. Recovering more of the expense at VA facilities would make that benefit more equitable among veterans and different sites of care.

Opponents of this option would argue that beneficiaries in nursing facilities may be less able to make copayments than beneficiaries receiving other types of care. They would also argue that allowing the VA to charge veterans with service-connected disabilities would be inconsistent with other medical benefits that those veterans receive. The VA could continue to exempt those veterans, but it would have to charge high-income veterans without service-connected disabilities even more to achieve the 10 percent recovery level.